

MEMORANDUM

TO: Local School District Superintendents
Finance Officers

FROM: Michelle D. Sutton, Director
Division of Financial Data Management

DATE: April 1, 2010

SUBJECT: Requirements for Local School District Audits

The purpose of this memorandum is to acquaint you with statutory and regulatory requirements for local school district audits and provide information regarding resolution of exceptions.

KRS 156.265 authorizes the State Committee for School District Audits (SCSDA) to conduct audits of the financial records of local boards of education. The audits shall be performed by a Certified Public Accountant (CPA), approved by the SCSDA, and conducted according to standards established by the committee. **Increases or decreases in the scope of the audit are addressed in the Supplemental Agreements section of the audit contract.**

The audit shall cover **ALL** accounts of the local board of education including activity funds at all schools and bank accounts in the name of the district's finance corporation.

Costs incurred in the audit of federal grants, the federal school food programs, and school construction accounts may, in most cases, be charged back to those funds. Determine which grants allow audit costs as an administrative expense and in what amount. Recover all possible costs from the grants, programs, and accounts. Districts receiving less than \$500,000 in federal funds may not charge audit costs to federal grants but may charge other programs and accounts as appropriate.

By **May 28, 2010**, the FY **2009-10** Audit Acceptance Statement and contract are due to **Kentucky Department of Education's (KDE's)** Division of District Operations and Transportation.

The SCSDA shall notify the local board of education of approval or disapproval of the executed contract on or before **June 18, 2010**.

Please review attachment KRS 156.255 - 156.295; 156.480 as you begin this process. You should obtain an engagement letter from the contracted auditor confirming the following minimum requirements are understood. The engagement letter may include additional items if you desire to address particular needs of your district's audit.

1. Audits shall be conducted in accordance with Generally Accepted Auditing Standards: *Government Auditing Standards*, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular No. A-133, Audits of States, Local Governments, and Non-Profit Organizations, Appendix I to the Independent Auditor's Contract - General Audit Requirements, Appendix II to the Independent Auditor's Contract - State Audit Requirement, and Appendix III to the Independent Auditor's Contract - Instructions for Completion and Electronic Submission of the Audit Report* and appropriately referenced in the various reports within the audit.
2. Audits shall be conducted in accordance with the most current Statement of Auditing Standards (SAS). Auditors also need to be aware of recent **Governmental Accounting Standards Board (GASB)** changes. Refer to Appendix I.
3. It is the district's responsibility to transfer by July 25 an initial Annual Financial Report (AFR) and Balance Sheet. In addition a second AFR and Balance Sheet, which are in agreement with the audit report, and the Statement of Certification with original signatures shall be transferred to KDE by November 15. It is the responsibility of the district's management (superintendent and finance officer) to properly record all adjusting entries on both the first and second AFRs and Balance Sheets. This responsibility includes entries for on behalf payments, fixed asset transactions, accruals and deferrals, and all other financial transactions. The district shall also provide the auditor with an AFR and Balance Sheet which are in agreement with the audit report.
4. One (1) copy of the audit report, along with the Data Collection Form, shall be submitted by the district, directly to the Single Audit Clearinghouse, as prescribed in OMB Circular No. A-133.
5. Audit reports are due to the Kentucky Department of Education, Division of District Operations and Transportation, by close of business on **November 15, 2010**. If any difficulties are encountered while performing the audit, the auditor should inform KDE of the difficulties as soon as possible. If, the audit cannot be completed by the deadline refer to the signed audit contract for the required procedures to inform KDE of the delay.

6. 702 KAR 3:150 requires all local boards of education to report to the Commissioner of Education, “in writing, progress being made to correct exceptions appearing in school audits authorized by the State Committee for School District Audits or, in writing, justify any failure to correct exceptions appearing in any school audit authorized by the State Committee for School District Audits.” The report shall be due to the Commissioner within 45 days of receipt of the final audit report by the local board, or no later than December 31 following the close of the fiscal year, whichever occurs first. The staff of the Division of Financial Data Management will review corrective action plans and monitor implementation of the plans by the districts.

Finally, attached for your information and review is a calendar of significant dates in the annual audit cycle for local school districts.

If you have any questions, please contact Division of Financial Data Management at 502-564-3846.

MDS: ks

Attachments: KRS 156.255 - 156.295; 156.480
 Statement of Certification
 Annual Cycle for Local School District Audits
 Audit Acceptance Statement
 Audit Contract
 Appendix I
 Appendix II
 Appendix III

KRS 156.255-156.295; 156.480

156.255 Definitions for KRS 156.255 to 156.295.

As used in KRS 156.255 to 156.295:

- (1) "Accountant" means a certified public accountant or a public accountant registered with the State Board of Accountancy.
- (2) "Board" means the board of education of a school district.
- (3) "Committee" means the State Committee for School District Audits.
- (4) "State board" means the Kentucky Board of Education.

Effective: July 15, 1996

156.265 State Committee for School District Audits.

- (1) There shall be a State Committee for School District Audits comprised of the Governor, or a person designated by him, the Attorney General, the Auditor of Public Accounts, a person designated by the Legislative Research Commission to represent the Office of Education Accountability, and the commissioner of education. The Auditor of Public Accounts shall be the chair of the committee.
- (2) The committee shall have the accounts of each board audited not less than once every fiscal year. The committee also may, at any time, cause to be made a comprehensive and complete audit of any board. Upon the written request of the state board, the commissioner of education, the Attorney General, the Auditor of Public Accounts, the Governor, or the Office of Education Accountability, the committee may cause the accounts of a board to be audited. Each audit shall cover such period of time, and shall include such auditing procedures and standards, as the committee may designate.
- (3) Audits authorized under this section are in addition to any audits contemplated under KRS 11.090 or 156.200 or KRS Chapter 43.
- (4) The actual expense of any audit authorized under this section shall be borne equally by the district board of education and by the committee from funds allocated to it (no funds currently allocated).
- (5) The committee shall meet at least quarterly. Additional or special meetings may be called by the chair.

Effective: July 14, 2000

156.275 Accountant -- Selection -- Reports.

- (1) The committee shall select, to make the audit authorized under KRS 156.265, accountants who are qualified under KRS Chapter 325 and the administrative regulations promulgated by the Kentucky State Board of Accountancy.
- (2) Immediately upon completion of each audit, the accountant shall prepare a report of his findings and recommendations in such form and in such detail as the committee may prescribe. The report shall be to the committee and in such number of copies as specified by the committee. The committee shall furnish one (1) copy to the Kentucky Board of Education, one (1) copy to the district board of education to which the report pertains, one (1) copy to the chief state school officer and one (1) copy to the Auditor of Public Accounts. The district board of education shall keep a copy of the report on file in the office of the superintendent of schools of the district and the report shall be open to inspection by any interested person, subject to reasonable rules as to time and place of inspection.

Effective: July 15, 1996

156.285 Access to records -- Witnesses -- Subpoena.

- (1) The accountant shall have access to and may examine all books, accounts, reports, vouchers, correspondence files, records, money, and property of any board. Every officer or employee of any such board having such records or property in his possession or under his control shall permit access to and examination of them upon the request of the accountant.
- (2) The committee may require information on oath from any person touching any matters relative to any account that the accountant is required to audit. The committee may administer the oath, or have it done by any officer authorized to administer an oath.
- (3) The committee may issue process and compel the attendance of witnesses before it, and administer oaths and compel witnesses to testify in any of the investigations the accountant is authorized to make.

Effective: July 15, 1994

156.295 Offenses -- Penalties.

- (1) Any officer or employee of a board or any other person who prevents, attempts to prevent, or obstructs an examination by the accountant made under KRS 156.265 and 156.275 is guilty of a high misdemeanor and shall, upon indictment and conviction in the Circuit Court of competent jurisdiction, be fined five hundred dollars (\$500).
- (2) Any person who fails or refuses to permit the examination provided for in KRS 156.285 or who interferes with such examination shall be fined not less than one hundred dollars (\$100) or imprisoned in the county jail for not less than one (1) month nor more than twelve (12) months, or both. Each refusal shall constitute a separate offense.
- (3) Any person who has custody of any books, accounts, reports, vouchers, correspondence, files, records, money, and property that the accountant is authorized to examine under KRS 156.265 and 156.285 who fails or refuses when called upon by the committee for that purpose to permit the accountant to inspect any of such materials shall, upon conviction in the Circuit Court of competent jurisdiction, be fined not more than five hundred dollars (\$500) and be subject to removal as provided by law.
- (4) Any person who refuses to be sworn when required by the committee to be sworn for the purpose mentioned in subsection (2) of KRS 156.285 shall be fined not more than five hundred dollars (\$500).
- (5) Any witness called by the committee under subsection (3) of KRS 156.285 who fails, without legal excuse, to attend or testify shall be fined not more than five hundred dollars (\$500).

Effective: July 15, 1994

156.480 Employees of department or school districts with decision-making authority prohibited from supplying goods or services for which school funds are expended -- Penalties.

- (1) No commissioner, associate commissioner, deputy commissioner, director, manager, purchasing agent, or other employee of the Department of Education with decision-making authority over the financial position of a school, school district, or school system shall have any pecuniary interest in the school, school district, or school system, either directly or indirectly, in an amount exceeding twenty-five dollars (\$25) per year, either at the time of or after his appointment to office, in supplying any goods, services, property, merchandise, or services, except personal services that are in addition to those required by contract for employment, of any nature whatsoever for which school funds are expended. If any person specified in this subsection receives, directly or indirectly, any gift, reward, or promise of reward for his influence in recommending or procuring the use of any goods, services, property, or merchandise of any kind whatsoever for which school funds are expended, he shall upon conviction be fined not less than fifty dollars (\$50) nor more than five hundred dollars (\$500), and his office or appointment shall without further action be vacant. (OAG 94-61 provides guidance for determining who has decision-making authority over the financial position of the school district.)

(2) No employee of any county or independent school district with decision-making authority over the financial position of the school district shall have any pecuniary interest, either directly or indirectly, in an amount exceeding twenty-five dollars (\$25) per year, either at the time of or after his appointment to office, in supplying any goods, services, property, merchandise, or services, except personal services that are in addition to those required by contract for employment, of any nature whatsoever for which school funds are expended. If any person specified in this subsection receives, directly or indirectly, any gift, reward, or promise of reward for his influence in recommending or procuring the use of any goods, services, property, or merchandise of any kind whatsoever for which school funds are expended, he shall upon conviction be fined not less than fifty dollars (\$50) nor more than five hundred dollars (\$500), and his office or appointment shall without further action be vacant.

Effective: July 15, 1994

Source: Legislative Research Commission Website – <http://www.lrc.ky.gov/>

Statement of Certification

State Committee for School District Audits
Frankfort, KY

The _____ **School District** certifies that all audit adjustments have been entered into MUNIS and that an Annual Financial Report and Balance Sheet, which are in agreement with the audit report, will be transferred to KDE in conjunction with the audit report.

SUBMITTED, _____, **2010**

_____ **Superintendent**

_____ **Finance Officer**

Original signed statement is due to KDE by close of business on November 15, 2010. Please send to:
Division of District Operations and Transportation
Kentucky Department of Education
500 Mero Street, CPT 15th Floor
Frankfort, KY 40601

ANNUAL CYCLE FOR LOCAL SCHOOL DISTRICT AUDITS

| DUE DATE | RESPONSIBLE PARTY | REQUIRED INFORMATION |
|--|--|---|
| May 28 | District | FY 2009-2010 Audit Acceptance Statement and signed contract |
| June 15 | State Committee for School District Audits | Approval of audit contracts |
| July 25 | District | Initial Annual Financial Report (AFR) and Balance Sheet (electronic reports) |
| October 1 | Auditor | Written explanation why audit cannot be completed on time |
| November 15 | Auditor | Audit reports (2 paper copies & 1 electronic copy of audit report - See Appendix III for electronic submission instructions) |
| November 15 | District | Second AFR and Balance Sheet (electronic reports) and Statement of Certification |
| November 15 – February 1 | KDE | Audit reports, AFRs and Balance Sheets reviewed; corrective action plans received and monitored; audit reports, AFRs and Balance Sheets corrections received. |
| December 31 st or 45 days after district receives audit reports, whichever occurs first | District | Corrective action plan per 702 KAR 3:150 |
| March – May | KDE | Corrective action monitoring continues |

All information should be sent to the following address:
 Division of District Operations and Transportation
 Kentucky Department of Education
 500 Mero Street, CPT 15th Floor
 Frankfort, KY 40601

Audit Acceptance Statement

State Committee for School District Audits

Frankfort, Kentucky

The _____ Board of Education requests the financial accounts of the Board be audited for FY **2009-2010** in accordance with the procedures adopted by the State Committee for School District Audits. The Board has chosen the firm of:

Auditor: _____ **Phone #:** _____

Address: _____ **Fax #:** _____

Address: _____ **Email:** _____

The cost of the audit has been estimated at: _____

If there is an increase in the audit cost from last year, please provide an explanation:

SUBMITTED, _____, **2010** _____

Board of Education

_____ Chairman

_____ Secretary

THREE (3) copies of this **signed statement are due to KDE by close of business on May 28, 2010. Please send to:**

**Division of District Operations and Transportation
Kentucky Department of Education
500 Mero Street, CPT 15th Floor
Frankfort, KY 40601**

INDEPENDENT AUDITOR'S CONTRACT

To provide for a school district audit in compliance with KRS 156.255, 156.265, 156.275, 156.285, 156.295, and 156.480, this agreement is made and entered into this _____ day of _____, 2010, between the _____ Board of Education ("BOARD"), and _____, ("ACCOUNTANT"), who is a Certified Public Accountant or a Public Accountant registered with the State Board of Accountancy.

I. DUTIES OF ACCOUNTANT

- A. ACCOUNTANT shall render an opinion on the financial statements of BOARD for fiscal year 2009-2010. The scope and nature of the audit shall be in accordance with **Appendix I** to this Independent Auditor's Contract - General Audit Requirements and **Appendix II** to this Independent Auditor's Contract - State Audit Requirements. These audit procedures are incorporated as a part of this agreement.
- B. ACCOUNTANT shall address the audit report and written comments to BOARD and to the State Committee for School District Audits (COMMITTEE). ACCOUNTANT shall deliver one (1) electronic copy of the audit report in accordance with **Appendix III – Instructions For Completion and Electronic Submission of the Audit Report**, along with (2) signed paper copies to COMMITTEE in care of Division of District Operations and Transportation, Kentucky Department of Education, no later than **November 15, 2010**. All electronic and paper copies of the audit report must be at the Division of District Operations and Transportation, KDE, for it to be considered filed timely. No more than three (3) files total (text and spreadsheet) will be accepted electronically, unless alternate arrangements are made through the Division of District Operations and Transportation.
- C. If the audit cannot be completed by **November 15, 2010** due to factors beyond the control of ACCOUNTANT, ACCOUNTANT shall explain in writing the reasons the audit cannot be completed by **November 15, 2010**. The written explanation must reach the Division of **District Operations and Transportation** by **October 1, 2010**. The explanation shall include, but not be limited to, the following information: **detailed reasons why the audit cannot be completed on time, work completed to date, work yet to be completed and estimated release date of audit**. If the written explanation does not reach the Division of **District Operations and Transportation** by **October 1, 2010** and the audit has not been received by the Division of District Operations and Transportation by **November 15, 2010**, then the audit will be considered late and penalties as outlined in section VII **shall** be imposed at the discretion of COMMITTEE.

II. DUTIES OF BOARD

- A. BOARD shall make available to ACCOUNTANT no later than **August 2, 2010** all books, accounts, reports, vouchers, correspondence files, records, money, and property under its control which may be requested by ACCOUNTANT in the course of performance of the audit.

III. COMPENSATION

- A. ACCOUNTANT shall be paid an amount agreed upon between the auditor and district which is incorporated herein for the successful completion of the work defined by this agreement.
- B. Final payment is predicated upon completion of the work and delivery of documentation described in section DUTIES OF ACCOUNTANT of this contract.
- C. Compensation to ACCOUNTANT for any increase or decrease of audit scope by authority of Section V SUPPLEMENTAL AGREEMENTS of this contract must **be defined in said agreements and approved by COMMITTEE if said increase or decrease exceeds \$1,000 or 10% of the audit fee estimate, whichever is less**.
- D. ACCOUNTANT shall submit to BOARD an invoice for payment which shall be signed by ACCOUNTANT and contain adequate supporting documentation such as: **detail of hours worked by each auditor classification (e.g., partner, manager, supervisor, senior, staff, etc.) in major audit areas or supervisory/administrative functions**.

IV. AUTHORITY OF COMMITTEE

- A. BOARD, ACCOUNTANT AND COMMITTEE agree:
 - 1. COMMITTEE and the Kentucky Department of Education may examine work papers of ACCOUNTANT and may perform quality control reviews of the audit procedures utilized during the course of the audit;
 - 2. COMMITTEE and BOARD may prohibit the use of any subcontractor by ACCOUNTANT. During the term of the contract, no subcontractor shall be used without the prior written approval of COMMITTEE and BOARD; and
 - 3. If tendered by **October 1, 2010** by ACCOUNTANT, COMMITTEE will consider the written explanation given by ACCOUNTANT as to why the audit cannot be completed by the due date and, solely at its discretion, may allow for the audit to be submitted without penalty to KDE after **November 15, 2010**, if the COMMITTEE determines the delay is unavoidable and is due to factors beyond the control of ACCOUNTANT.

V. SUPPLEMENTAL AGREEMENTS

- A. If during the course of the audit a material exception is noted by ACCOUNTANT that requires additional procedures or an increase in the scope of the audit, the scope of the audit may be increased by written supplemental agreement of BOARD and ACCOUNTANT if the material exceptions have first been reported in writing by ACCOUNTANT to COMMITTEE. The scope of the audit may also be reduced by written supplemental agreement of BOARD and ACCOUNTANT if the reasons for the reduction have first been reported in writing by ACCOUNTANT to COMMITTEE.

VI. DELIVERY OF AUDIT REPORT

- A. ACCOUNTANT agrees to begin the audit of accounts of BOARD on or about **August 2, 2010** or 15 days from execution date of this contract, whichever is later, and further agrees to complete and deliver a signed copy of the audit report to BOARD and to COMMITTEE and electronically submit the report to KDE on or before **November 15, 2010**.
- B. Audit reports (paper and electronic) are due at KDE on or before **November 15, 2010 or at a later date approved by the COMMITTEE**. If the audit cannot be completed by the deadline, then ACCOUNTANT must explain in writing why the audit cannot be completed on time. The explanation must reach the Division of **District Operations and Transportation** by **October 1, 2010**.
- C. Failure to submit a written explanation as described above by **October 1, 2010** when the audit cannot be completed by the due date will be grounds for COMMITTEE to impose penalties under Section VII.

VII. PENALTIES

- A. There **shall** be a 10% reduction of the original audit fee if any one or more of the following occur: (1) the electronic copy and the two paper copies of the audit report are not delivered to the Division of District Operations and Transportation on or before **November 15, 2010** or on or before a later date approved in writing by the COMMITTEE; (2) the audit report does not contain the information shown in Appendix I, Sections 7 and 10; or (3) the audit report is not submitted as referenced above in Duties of Accountant, Section I.B., unless alternate arrangements have been made with the Division of District Operations and Transportation, KDE.
- B. ACCOUNTANT may be ineligible to conduct a school district audit for the upcoming fiscal year if any one or more of the stipulations in section A occur.
- C. COMMITTEE may waive penalties for delays caused by circumstances beyond the control of ACCOUNTANT.

VIII. EFFECTIVE DATE

- A. This agreement, between the **ACCOUNTANT** and the **BOARD**, shall not become effective until the COMMITTEE has approved the audit contract.

IX. TERMINATION

- A. The BOARD shall have the right to terminate and cancel this contract at any time without cause upon 30 days written notice served on the ACCOUNTANT by registered or certified mail. The BOARD shall have the right to terminate and cancel this contract for cause upon 5 days written notice served on the ACCOUNTANT by registered or certified mail.
- B. If cause exists to terminate and the BOARD does not terminate, the COMMITTEE may terminate and cancel this contract for cause upon 5 days written notice served on the ACCOUNTANT by registered or certified mail.
- C. "Cause" includes, but is not limited to:
- (a) failure to commence work within 15 days of execution of the contract or **August 2, 2010**, whichever is later;
 - (b) previous history of extension requests by the same ACCOUNTANT for the same district;
 - (c) failure to **submit** the audit by **November 15, 2010**;
 - (d) failure to communicate to the Kentucky Department of Education in a timely manner problems encountered in conducting the audit.

Cause shall not include any factor wholly the fault of the BOARD.

X. CONFLICTS OF INTEREST

- A. ACCOUNTANT represents and warrants that (a) ACCOUNTANT is legally able to enter into contracts with BOARD, (b) the performance of this agreement would not violate any conflict of interest statutes, and (c) that ACCOUNTANT has no personal interest in the financial affairs of BOARD or any of its officers or employees.

AGREED TO BY:

| | |
|---|----------------------------|
| _____ BOARD OF EDUCATION | _____ ACCOUNTANT |
| BY: _____ SCHOOL BOARD CHAIRMAN | BY: _____ FIRM |
| _____ SECRETARY | _____ PARTNER |

STATE COMMITTEE FOR SCHOOL DISTRICT AUDITS

BY: _____
STATE COMMITTEE CHAIRMAN

THREE (3) copies of the signed audit contract are due to KDE by close of business on May 28, 2010. Please send to:

**Division of District Operations and Transportation
Kentucky Department of Education
500 Mero Street, CPT 15th Floor
Frankfort, KY 40601**

APPENDIX I GENERAL AUDIT REQUIREMENTS

1. The State Committee for School District Audits requires all local school boards to have an annual audit of the fiscal records and accounts under the board's control. If the board members have also incorporated as a "Finance Corporation", that entity and related fiscal records and accounts are to be included in the audit.
2. The audit shall cover an entire fiscal year ending June 30 unless otherwise specified by the State Committee for School District Audits.
3. Except in cases where special audits are authorized by the State Committee for School District Audits, the local boards of education shall select the auditor. Selection shall be made from the current licensure list provided by the State Board of Accountancy of Kentucky.
4. Each local board of education shall make application for an audit on forms provided by the Kentucky Department of Education (KDE). **Three** copies of the contract forms **are due to KDE by close of business on May 28, 2010 for approval by** the State Committee for School District Audits. **THE LOCAL BOARD OF EDUCATION DOES NOT HAVE A VALID CONTRACT WITH THE AUDITOR UNTIL THIS APPROVAL IS GIVEN.**
5. The audit shall be conducted in accordance with **Generally Accepted Auditing Standards (GAAS)**; *Government Auditing Standards*¹, issued by the Comptroller General of the United States; the provisions of *Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations*, and the audit requirements prescribed by the Kentucky State Committee for School District Audits in *Appendix I of the Independent Auditor's Contract - General Audit Requirements*, *Appendix II of the Independent Auditor's Contract - State Audit Requirements*, and *Appendix III of the Independent Auditor's Contract – Instructions for Completion and Electronic Submission of the Audit Contract* and appropriately referenced in the various reports within the audit.
6. The scope of the audit shall include but not be limited to:
 - (1) General Fund;
 - (2) Special Revenue Fund;
 - (3) Capital Projects Fund;
 - (4) Debt Service;
 - (5) School Food Service;
 - (6) Internal Service Funds;
 - (7) Activity Funds;
 - (8) Fiduciary Funds;
 - (9) Fiscal Agent Funds; and

¹ *Government Auditing Standards* require participation of the auditor in an external quality review program and continuing education related to government auditing.

(10) Fixed Assets as required by GASB 34.

If, in the course of field work, it is determined that funds have been transferred to a school through the school based council allocation process, those funds shall be considered Board funds, not activity funds, and audited as part of the general fund.

7. The report shall contain all control deficiencies identified during the audit which are considered significant deficiencies and/or material weaknesses, including significant deficiencies and material weaknesses that were communicated in previous audits. These control deficiencies must be appropriately segregated and identified in the report and coded by the fiscal year under audit (i.e. 2010-1, 2010-2). Control deficiencies presented as part of the report, as well as other matters conveyed in a separate management letter, shall be well developed and shall consist of the following components:

- (1) A statement of finding(s).
- (2) The criteria
- (3) The cause
- (4) The effect
- (5) A recommendation
- (6) Management's response

A written management letter is required to be submitted to the district and included as part of the audit that is submitted to KDE. Each management letter shall report on the status of previous management letter comments and the progress toward the resolution of concerns identified during the preceding audit. **The management letter comments are not required to consist of all of the components listed above.**

8. The official records and reports of the school district shall not be taken from the board of education office during the course of the audit engagement.
9. Findings, questioned costs, management letter, School Activity Fund Schedule(s) and responses to findings and the management letter shall be submitted as a part of the audit report. The High School Activity Fund Schedule should categorize each individual activity fund by account, reflecting all activity funds of the high school. The High School Activity Fund Schedule must show receipts, expenditures, beginning balance and ending balance. Elementary and Middle School Activity Funds should be summarized **showing receipts, expenditures, beginning balance and ending balance** in a single line per school.
10. The district must record audit adjustments after the audit has been completed and before the revised AFR is submitted to KDE. The auditor should work with the district to ensure the revised AFR agrees to the audit report. Only the revised AFR that agrees to the audit report and submitted with the audit report will be utilized by KDE for end of year reporting.
11. It is the auditors' responsibility to contact KDE with criminal activity concerns.

12. One (1) copy of a bound audit report, along with the Data Collection Form, shall be submitted by the district, directly to the Single Audit Clearinghouse, as prescribed in OMB Circular No. A-133.
13. Auditors and districts are to follow and comply with all professional standards and pronouncements. Auditors are responsible for maintaining the proper knowledge of all accounting and auditing standards as they relate to school district audits.
 - SAS 113, Omnibus Statement on Auditing Standards- 2006, contains amendments that primarily revise certain terminology throughout existing auditing standards to conform it to newly adopted terms in recently-released standards. It also provides a link between the consideration of fraud and the auditor's risk assessment and the procedures to respond to the risk assessment, and it changes the convention for dating the representation letter. This SAS is effective for audits of periods beginning on or after December 15, 2006.
 - SAS 114, The Auditor's Communication With Those Charged With Governance, superseded SAS No. 61, *Communication With Audit Committees*. The new SAS includes additional matters to be communicated to those charged with governance, provides guidance on determining the appropriate individuals to communicate matters to and provides additional guidance on the communication process. The Auditing Standards Board (ASB) believes the new standard will help meet increased expectations for auditors to communicate candidly with those charged with governance regarding significant findings and issues. This SAS is effective for audits of periods beginning on or after December 15, 2006.
 - SAS 115, Communicating Internal Control Related Matters Identified in an Audit, supersedes SAS No. 112 of the same title and was issued to eliminate differences within the American Institute of Certified Public Accountants' (AICPA) Audit and Attest Standards resulting from the issuance of Statement on Standards for Attestation Engagements (SSAE) No. 15, *An Examination of an Entity's Internal Control Over Financial Reporting That Is Integrated With an Audit of Its Financial Statements*. SSAE No. 15 establishes standards and provides guidance to practitioners performing an examination of a nonissuer's internal control over financial reporting in the context of an integrated audit. SSAE No. 15 aligns the definitions of the various kinds of deficiencies in internal control and the related guidance for evaluating such deficiencies with the definitions and guidance in Public Company Accounting Oversight Board Auditing Standards No. 5, *An Audit of Internal Control That is Integrated with an Audit of Financial Statements*. SAS No. 115, in turn, aligns the definitions and related guidance for evaluating deficiencies in internal control with the definitions and guidance in SSAE No. 15. This SAS is effective for audits of financial statements for periods ending on or after December 15, 2009.
 - SAS 116, Interim Financial Information - This SAS amends AU section 722, *Interim Financial Information* (AICPA, *Professional Standards*, vol. 1), to accommodate reviews of interim financial information of nonissuers,¹¹ including companies offering securities pursuant to Securities and Exchange Commission (SEC) Rule 144A or participating in

private equity exchanges. For example, a nonissuer may, on a quarterly basis, prepare interim financial statements that conform with the requirements of Article 10 of SEC Regulation S-X. This SAS is effective for reviews of interim financial information for interim periods beginning after December 15, 2009.

- **SAS 117, Compliance Audits** - Governments frequently establish governmental audit requirements for entities to undergo an audit of their compliance with applicable compliance requirements. To address such governmental audit requirements, the Auditing Standards Board has issued Statement on Auditing Standards (SAS) No. 117, Compliance Audits, which supersedes SAS No. 74, Compliance Auditing Considerations in Audits of Governmental Entities and Recipients of Governmental Financial Assistance. SAS No. 117 was primarily developed in response to the results of a federal study on the quality of audits performed under Office of Management and Budget Circular A-133, Audits of States, Local Governments and Non-Profit Organizations (also referred to as single audits), which showed that improvements were needed in many areas.

SAS No. 117 establishes standards and provides guidance on performing and reporting (in accordance with GAAS, Government Auditing Standards, and a governmental audit requirement that requires an auditor to express an opinion on compliance) on an audit of an entity's compliance with applicable compliance requirements of a governmental audit requirement. Examples of such engagements include single audits and audits performed under the U.S. Department of Housing and Urban Development (HUD) Consolidated Audit Guide for Audits of HUD Programs.

SAS No. 117 updates SAS No. 74 to reflect changes in the compliance audit environment and incorporates the risk assessment standards. It requires the auditor to adapt and apply the AU sections of AICPA Professional Standards to a compliance audit and provides guidance on how to do so. It identifies the AU sections that are not applicable to a compliance audit, defines terms related to compliance audits and used in the SAS, and identifies the elements to be included in an auditor's report on a compliance audit. This SAS is effective for compliance audits for fiscal periods ending on or after June 15, 2010.

14. The auditee is required by KDE to prepare a summary schedule of prior audit findings even if there are no matters reportable therein.
15. Federal grants must be identified on the Schedule of Expenditures of Federal Awards (SEFA) with the full title from the Catalog of Federal Domestic Assistance and the CFDA #. If no number is available, refer to The Federal Catalog at <http://www.cfda.gov/>. Federal grants must also be identified with a pass through number. If one is not identified on the District Payment Register the MUNIS Project number is to be used.
16. Child Nutrition Cluster (CFDA # 10.553, 10.555, 10.556 and 10.559) and Special Education Cluster (CFDA # 84.027, 84.173) must be identified on SEFA with a total for the cluster, and also identified on the Schedule of Findings and Questioned Costs if deemed to be a major program.

17. If two years are shown for a federal grant, the total for that grant must also be shown on SEFA.
18. The auditor shall verify that the school district is in compliance with Section 409A of the Internal Revenue Code. Section 409A was enacted in October 2004 and was generally effective on January 1, 2005. Section 409A applies to compensation that workers earn in one year but that is not paid until a future year.
19. The auditor shall ensure compensated absences are properly reported in the financial statements. GASB Statement No. 16, *Accounting for Compensated Absences*, as interpreted by GASB Interpretation No. 6, provides guidance for measuring liabilities for compensated absences, which are absences for which employees will be paid, such as vacation, sick leave and sabbatical leave. GASB Statement No. 16 provides different liability measures depending on the characteristics of particular benefits. It also provides alternatives – the termination payment method and the vesting method – for recognizing liabilities for sick leave and other compensated absences with similar characteristics. GASB Statement No. 16 requires (a) the compensated absences liability generally to be measured using the pay or salary rates in effect at the reporting date and (b) additional amounts to be accrued for certain salary-related payments associated with the payment of compensated absences, for example, the employer's share of Social Security and Medicare taxes and in some cases the employer's contributions to pension plans. The government-wide and proprietary and trust fund financial statements should recognize compensated absences expenses when the liability is incurred. (AICPA Audit and Accounting Guide, Audits of State and Local Governments).
20. On-behalf payments should be coded accurately in the MUNIS accounting system so they are properly displayed in the audit report and fully disclosed in the notes of the financial statements.
21. **GASB 54 - Fund Balance Reporting and Governmental Fund Type Definitions**
(Issued 03/09) The requirements of this Statement are effective for financial statements for periods beginning after June 15, 2010. The objective of this Statement is to enhance the usefulness of fund balance information by providing clearer fund balance classifications that can be more consistently applied and by clarifying the existing governmental fund type definitions. This Statement establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. The initial distinction that is made in reporting fund balance information is identifying amounts that are considered *nonspendable*, such as fund balance associated with inventories. This Statement also provides for additional classification as restricted, committed, assigned, and unassigned based on the relative strength of the constraints that control how specific amounts can be spent. Fund balance reclassifications made to conform to the provisions of this Statement should be applied retroactively by restating fund balance for all prior periods presented.

KDE is conferring with various government entities regarding early implementation of this Statement for 2009-10 fiscal year audits and will be sending out further correspondence on implementation of GASB 54 as it becomes available.

22. American Recovery and Reinvestment Act of 2009 (ARRA) funds may increase audit requirements for auditors and districts. Because ARRA funds are federal, they must be included in determining if an entity must have an A-133 (Single Audit) for the year. Districts that have previously been exempt, may now be required to have an A-133 audit due to the additional consideration of ARRA funds.

APPENDIX II

STATE AUDIT REQUIREMENTS

As part of the auditor's examination, the following procedures and tests are considered required. These are not intended to establish minimum audit procedures, but are listed to highlight their significance in a school district audit.

1. Examination of Office of Education Accountability (OEA) reports and any KDE reports - KDE staff will notify the auditor when an OEA investigative report is received by KDE or if a report is issued by KDE for the district being audited. The auditor will use the OEA investigative report/KDE report to help identify any audit risks that would warrant increased audit testing in certain areas.
2. Examination of Board Minutes, Insurance Policies, Contracts, Bids, and Collateral - An examination of these documents shall be made insofar as they affect the financial transactions of the district and the district's compliance with statutes and regulations. Of special concern are adherences to bid laws, risk management, conflict of interest, and contract approvals.
3. Examination and Analysis of Sources of Income - Auditors having approved contracts with local boards of education receive a District Payment Register listing all payments to the district from the Kentucky State Treasurer. This report, sheriff's reports on tax receipts (sheriff's settlement), bond issues, interest recaps, and other documentation shall be used to verify and classify receipts. Auditors also receive health insurance, flexible spending account, life insurance, administrative fee, KTRS and Voc-ED information for their review.

The auditor shall also be concerned with the propriety of the allocation of tax receipts between the general and building funds.

4. Verification of District Posting Audit Adjustments to MUNIS – **The district shall provide the auditor with an AFR and Balance Sheet that is in agreement with the audit report.** Failure of the district to post all audit adjustments and generate an AFR and Balance Sheet that agree to the audit report will result in a written audit finding.
5. Verification and Legal Authorization of Disbursements - Determine the propriety of disbursements on a test basis using the following documents:
 - a) Official minutes - (authorization);
 - b) Standard invoices (or reasonable facsimile);
 - c) Vendor invoices;
 - d) Orders of the Treasurer (or reasonable facsimile);
 - e) Cancelled checks;
 - f) Purchase orders (receiving slips, requisition forms);
 - g) Signed claims for reimbursement, advancements, etc.;
 - h) Payroll reports;

- i) BG-1s (construction);
 - j) Interfund transfer forms (or reasonable facsimile);
 - k) Board orders;
 - l) Contracts and/or lease agreements; and
 - m) Board policy for pro rata allocation among funds and other board policy pertaining to disbursements.
 - n) Auditors should consider reviewing employee contracts, overtime, extra duty pay, and hand-written payroll checks to confirm appropriate payments are being made to personnel in payroll, finance, and superintendent offices. Auditors should consider reviewing these items for other school employees through sampling.
6. Bonded Indebtedness (KRS 157.632) - The auditor shall confirm with the trustee the beginning balance, receipts, disbursements, and ending balance of each bond issue. The auditor shall determine if receipts were in agreement with amounts as specified in the pay schedules and if each bond account was reconciled for the period. The degree of compliance shall be disclosed. The composite bond schedule shall be reviewed, including all information relative to the various issues.
- Review any participation agreements between the board or the district finance corporation and the School Facilities Construction Commission (SFCC). The general wording of the agreement indicates the board is legally liable for the local portion and the SFCC portion of the bond issues. The total debt of the district shall be scheduled with the SFCC obligation segregated. The notes to the financial statements shall fully explain the agreement and debt.
7. Long-Term Leases - Examine any long-term lease agreements, lease-purchase agreements, or other multi-year funding arrangements for adherence to bid laws, payments being made from the proper fund, and terms and conditions meeting statutory requirements.
8. Budgets - A copy of the Tentative Budget and Working Budget, as adopted, with amendments, shall be given to the auditor at the beginning of the engagement. Comparison of actual income and disbursements with the budget may disclose fiscal management weaknesses or extraordinary events to be investigated. Full disclosure of findings is desired.
9. Accounts Receivable - Accounts receivable are recognized on the modified accrual basis of accounting. GASB 33 establishes general standards for the recognition of assets on the balance sheet (i.e., cash or accounts receivable) and the income statement (i.e., revenue). The asset recognition question arises when cash has not yet been received, and a determination must be made for recognizing the receivable as an asset on the balance sheet.

Pursuant to GASB 33, there are eligibility and timing requirements to consider. Transactions are eligible to be recognized when measurable and probable. Transactions such as state and federal mandated programs, grants and donations are recognized when

all eligibility requirements are met. Property taxes are defined as imposed non-exchange transactions. Recognition of property taxes is based upon a timing requirement, which is “when enforceable legal claim and period for which is levied.” Consistent with GASB 33, real property taxes levied as of January 1, 2009 but not yet billed will not be recorded as receivables on the balance sheet of Kentucky school districts.

10. Accounts Payable - Accounts payable arise with the recognition of the liability of the school district to pay for goods received or services rendered, resulting in the identification of an asset or recording of an expense. Accounts payable are generally those liabilities whose liquidation is reasonably expected to require use of existing resources.

Because school districts must order supplies and equipment in the spring for the following school year, care should be taken to discern the amounts to be classified as encumbered rather than payable. The fund balance may be proportionately shown as unreserved and reserved for encumbrances. Those purchase orders and contracts expected to be honored in the new year with new year revenue should be classified as encumbrances. No detail of encumbrances need be provided. The measurement accounts payable is principally from vendor invoices submitted to the school district for payment, from existing contractual arrangement, or from board orders.

11. Specific State Statute and Regulation Compliance Items - The Kentucky statutes and regulations contain many restrictions and requirements that school districts must follow. The auditor shall perform the necessary procedures to determine district compliance with the following items and any others that may come to their attention during the course of the audit.
 - a) Nickels and Equalization (KRS 157.621) To accommodate districts with growing numbers of students, school districts meeting the criteria in KRS 157.621 can levy an additional nickel for building fund needs. This nickel is levied by districts that meet criteria of a growth district, which is based on growth in the number of students, bonded indebtedness, current student enrollment in excess of available classroom space, and facility plan requirements. The statute also provides the criteria for the district to levy the second growth nickel, Base Realignment and Closure (BRAC) nickel, recallable nickel, and equalized facility funding nickel, and state equalization for nickel taxes.
 - b) Use of Local District Capital Outlay Funds (HB 4 – 2009 special session)
Notwithstanding KRS 157.420(4) and (6), as amended by 2009 Ky. Acts ch. 53, sec.1 and ch.74, sec.2, a local school district may submit a request for approval to the Commissioner of Education to use capital outlay funds for general operating expenses in fiscal year 2009-2010 without forfeiture of the district’s participation in the School Facilities Construction Commission Program.
 - c) Securance of a signed statement from each board member attesting that they have no knowledge of any conflict of interest or nepotism, as defined in KRS 160.180.

- d) Observance of approved single salary schedule (KRS 157.320(12) and 157.350(3); 702 KAR 3:070)" 'Single Salary Schedule ' means a schedule adopted by a local board from which all teachers are paid for one hundred eighty-five (185) days and is based on training, experience, and such other factors as the Kentucky Board of Education may approve and which does not discriminate between salaries paid elementary and secondary teachers." If the budget bill contains a minimum statewide salary schedule, no teacher shall be paid less than the amount specified in the biennial budget salary schedule for the individual teacher's educational qualifications and experience. HB 406 - 2008, 2008-2010 Biennial Budget bill and, notwithstanding KRS 157.420, during fiscal year 2009-2010, local school districts shall provide all certified staff and classified staff a salary or compensation increase, in addition to the increase provided in fiscal year 2008-2009, not less than one percent. The salary increases in fiscal year 2009-2010 for certified staff shall be in addition to the normal rank and step increase attained by certified personnel employed by local school districts. Classified staff employed by a local board of education that work less than full-time shall receive a pro rata share of the salary increase based on terms of their employment. The above increase in fiscal year 2009-2010 for classified staff shall be in addition to a normal step increase or any increase that might result from assuming new duties or obtaining additional qualifications.
- e) Compliance with applicable laws and regulations governing procurement.
- School district purchasing procedures must comply with KRS 424.260 (Bid Law) unless they have adopted KRS Chapter 45A, the Model Procurement Code, by formal action of the board.²
 - Bid Law KRS 424.260 and 702 KAR 3:135. The Bid Law requires districts to advertise for sealed bids for any contract, lease or other agreement for materials; supplies except perishable meat, fish and vegetables; equipment; or for contractual services other than professional, involving an expenditure of more than \$20,000. The \$20,000 threshold applies to district wide purchases rather than individual schools and is deemed to apply to items which can be purchased from the same vendor or can be grouped together by expenditure code such as teaching supplies.³ Contracts for construction of new school buildings and additions and repairs to existing buildings which exceed \$7,500 must be awarded by competitive sealed bidding (KRS162.070).
 - Model Procurement Code (KRS Chapter 45A.080). The Model Procurement Code also requires that all contracts or purchases be awarded by competitive sealed bidding unless a determination is made by the board in writing that sealed

² Model Procurement has been adopted by three-fourths of the school districts.

³ For example, \$4,000 expenditure for like item from each of six school's activity funds would exceed the \$20,000 limit aggregated.

bidding is not feasible. A brief summary of alternative purchasing procedures follows:

Competitive Negotiations (KRS Chapter 45A.370) are possible when specifications cannot be made sufficiently specific to permit award on the basis of either the lowest bid price or the lowest evaluated bid price; sealed bidding is inappropriate because available sources of supply are limited; or the bid prices received through sealed bidding are unresponsive or unreasonable.

Noncompetitive Negotiation (KRS Chapter 45A.380) may be used when a written determination is made that competition is not feasible due to the following circumstances:

- 1) An emergency exists;
- 2) There is a single source within a reasonable geographic area of the product or service to be procured;
- 3) Contract is for professional services other than construction management services;
- 4) Contract is for perishable items purchased on a weekly or more frequent basis;
- 5) Contract is for replacement parts;
- 6) Contract is for proprietary items for resale;
- 7) Contract is related to selling by students as an educational experience;
- 8) Contract is related to authorized travel outside the school district;
- 9) Contract is for purchase of supplies for sale at public auction;
- 10) Contract is for group health and life insurance, worker's compensation and unemployment insurance;
- 11) Contract is for supplies which will result in a savings to the district

Small Purchase (KRS Chapter 45A.385) procedures may be used when the aggregate amount of the contract does not exceed \$20,000. Policy must be in writing and available to the public.

State Price Contracts (KRS Chapter 45A.420) may be used when the result is a savings to the district.

f) Conflict of interest as specified in KRS 156.480.

- No employee of a school district with decision-making authority over the financial position of a school, school district, or school system shall have any pecuniary interest in an amount exceeding twenty-five dollars (\$25).

g) Payment to the board of interest earned on investment of school tax revenues while in possession of the sheriff (KRS 134.140(3) (a)-(b)).

- If the sheriff invests local tax receipts, he must turn over to the board of education a proportionate share of interest earned.

h) Collection of School Taxes KRS 160.500-.510

- Tax collector is entitled to a fee equal to his expenses but not less than 1.5 % and not to exceed 4% for the collection of school taxes. The tax collector will, on or before the tenth day of each month, pay the depository of the board of education the amount of the school tax collected up to and including the last day of the preceding month. The amount paid, along with the classes of property from which it was received, is to be reported in writing to the treasurer of the board. This means that the sheriff or other property tax collector is not to deduct his fee from the taxes collected.

i) Bonds, penal sum:

- **Fidelity bond, penal sum:** As stipulated in Kentucky Administrative Regulations 702 KAR 3:080 **Section 2. (1) A local board of education shall require a fidelity bond from the board treasurer, the finance officer, and others holding similar positions who are responsible for district funds. (2) A local board of education shall determine the amount of the penal sum of the fidelity bond for all employees by July 1st of each year. (3) The local board of education shall submit the fidelity bonds to the Commissioner of Education for approval no later than July 31st of each year.** Review districts' personnel that have access or responsibility for local board funds and ensure that the districts comply with the administrative regulation by having that person(s) bonded appropriately.
- **Depository bond, penal sum:** As stipulated in Kentucky Administrative Regulations 702 KAR 3:090 **Section 1. A local board of education, on the advice of the superintendent, shall determine the penal sum of the bond of depository at least thirty days prior to the depository entering upon its duties and by July 1 of each year. Section 2. The depository bond must be approved by the Commissioner of Education. Section 3. The penal sum of the depository bond shall be at least equal to either 103 percent of the current daily balances in each account as they may fluctuate throughout the life of the bond or the highest daily balance in each account each month for all accounts in the previous year.**

j) Payments to substitute teachers per KRS 157.390 and 702 KAR 3:075.

- Boards of education shall adopt a per diem pay schedule for substitute teachers which will take into account their training and experience.

k) Transportation of non-public school (private or parochial) children and reimbursement agreements per KRS 158.110 and accompanying attorney general opinions.

- l) Payment of salaries to school employees.
 - All school employees working on a continuing, regular basis shall be paid regularly on dates determined by the board of education during the school year or during the fiscal year for 12 month employees. (KRS 160.291 and 702 KAR 3:060)
 - KRS 161.011 requires that districts provide contracts for all classified employees and that job descriptions are consistent with KDE Classification Plan for Classified Employees.
- m) Publication of annual financial statement and budget.
 - KRS 424.220 requires that local boards of education publish annual financial statements which shall include the total amount of funds collected and received during the fiscal year from each individual source and the amount dispersed during the fiscal year to each individual payee and the purpose for which the funds were expended. The amount of salaries paid to district employees shall be shown as lump sum expenditures.
 - KRS 424.250 requires that local boards of education publish the tax rates levied by the district after approval by the Kentucky Board of Education.
- n) Extension of credit by the Board of Education as prohibited in Sections 177 and 179 of the State Constitution.
- o) Incompatibility of offices and employment as stated in Sections 165 and 237 of the State Constitution. Refer also to KRS 61.080, 160.180, and 160.345.
- p) Exceeding of budget per KRS 160.550.
 - No expenditures are permitted in excess of the income and revenue of any year.
 - A district is deemed to be deficit if it ends a fiscal year with a negative fund balance in the General Fund as reported on the district's Annual Financial Report.
- q) Per Diem and expenses allowed board members (KRS 160.280).
- r) Adherence to budget cycle outlined in KRS 160.470, including allocations to school councils (KRS 160.345; 702 KAR 3:246).
 - KRS 160.470(5) states, "Within thirty (30) days after the district board of education has received its assessment data, the rates levied shall be forwarded to the Kentucky Board of Education for its approval or disapproval. The failure of the district board of education to furnish the rates within the time prescribed shall not invalidate any levy made thereafter. KRS 160.345(2)(f) and 702 KAR 3:246 require local boards to make an allocation to school councils by March 1 of each

year which shall include the amount for certified and classified staff based on the district's staffing policy and the amount for instructional supplies, materials, travel and equipment.

- KRS 160.470(6)(a) also requires boards of education to adopt a tentative working budget for the subsequent fiscal year by May 30 of each calendar year. The budget must contain a minimum 2% reserve based on the district's total budget. Evidence of board action can be found in the board's official minutes.
 - Finally, KRS 160.470(6)(b) requires local boards to adopt a final working budget and submit it for State Board approval by September 30 of each calendar year. Evidence of board action can be found in the official minutes of the board.
- s) Board designation of depositories of school funds and executed Bond of Depository per KRS 160.570(1) and 702 KAR 3:090. "Each board of education shall appoint a bank, trust company, or savings and loan association to serve as its depository, and if its annual receipts from all sources exceed one hundred thousand dollars (\$100,000), it may designate three (3) depositories, except boards of education of school districts in counties containing cities of the first class may designate up to six (6) depositories. The depository may be designated for a period not to exceed two (2) years, and before entering upon its duties shall agree with the board as to the rate of interest to be paid on average daily or monthly balances."
- t) Leases per KRS 65.944, 160.160 and 702 KAR 3:300.
- All leases in excess of \$100,000 must be reviewed by the Division of Financial Data Management and approved by the Commissioner of Education. Technology lease agreements of any amount must be reviewed by the Division of Financial Data Management and approved by appropriate personnel in the Office of Education Technology.
 - No board may lease a building or public facility that has been or is to be financed at the request of the board or on its behalf without approval of the Department.
- u) SFCC participation (KRS 157.611-640.)
- The School Facilities Construction Commission was established to help local school districts meet their school construction and education technology needs. The commission administers two separate programs: the school construction funding program and the education technology program. Funds appropriated for each program to the school district are to be maintained and audited separately.
 - For the School Facilities Construction program, noncompliance of KRS 157.611(2), .615(1), .620(1-3), .622(5), .625(4), .627(1-3), or .632(1) shall be noted.

- For the Education Technology Funding program, refer to KRS 157.650-.660 and Administrative Regulation 750 KAR 2:010. Expenditures from the technology fund must be consistent with the district's approved technology plan.
- v) Per KRS 65.944, notification and approval of leases by state local debt officer or chief state school officer is required for the following:
- In addition to the notification required by KRS 65.117, no county, except an urban-county, shall enter into a lease if the lease price exceeds five hundred thousand dollars (\$500,000) without first receiving the approval of the lease from the state local debt officer. The state local debt officer may prescribe procedures and adopt regulations for granting approval of the leases.
 - In addition to the notification required by KRS 65.117, no school district shall enter into a lease if the lease price exceeds one hundred thousand dollars (\$100,000) without first receiving the approval of the lease from the chief state school officer. The chief state school officer shall recommend administrative regulations to the State Board of Education for implementation of KRS 65.940 to 65.956.
 - The state local debt officer may provide technical and advisory assistance regarding the entering into leases by a governmental agency whose governing body requests assistance.
 - Local school districts may borrow money on short term basis subject to the restriction imposed by KRS 160.540.
- w) Interest earned on Restricted Accounts per KRS 157.615 and KRS 157.620.
- The school district shall transfer all available local revenue, as defined by KRS 157.615(1), to a restricted account for school building construction, to be utilized for the priorities defined by the approved school facilities plan.
 - Interest earned on funds deposited in the restricted accounts required by KRS 157.620(2) section shall be deposited in the restricted account and shall become a part of the restricted funds.
- x) Compliance with applicable statutes and regulations governing the Kentucky Teachers' Retirement System (KTRS) and the County Employees' Retirement System (CERS).
- y) Insurance required per KRS 160.105 and 702 KAR 3:030 The school district shall provide for fire & extended insurance coverage on each building owned by the board that is not surplus to its needs as shown by the approved facility plan. This coverage must be an amount equal to the estimated replacement cost per square foot as

provided below. Legislation is pending that may affect this section. Auditors and district personnel should be aware of any changes resulting from passage of this pending legislation.

| | <u>July-December 2009</u> | <u>January-June 2010</u> |
|--------------------|---------------------------|--------------------------|
| Elementary schools | \$201.50 | \$197.60 |
| Middle schools | \$204.10 | \$201.50 |
| High schools | \$217.10 | \$214.50 |
| Vocational schools | \$206.50 | \$204.10 |
| Central office | \$201.50 | \$200.20 |
| Bus garages | \$167.70 | \$166.40 |
| Storage buildings | \$111.80 | \$110.50 |

- z) Unused sick leave per KRS 157.420(3) provides guidance to school districts for funding a restricted escrow account, and compensating teachers or employees, for unused sick leave.

The report on state compliance may be combined with the report on compliance with laws and regulations based on an audit of financial statements performed in accordance with *Government Auditing Standards* by including the following:

In addition, the results of our tests disclosed no instances of **material** noncompliance of specific state statutes or regulations identified in *Appendix II of the Independent Auditor's Contract - State Audit Requirements*.

APPENDIX III INSTRUCTIONS FOR COMPLETION AND ELECTRONIC SUBMISSION OF THE AUDIT REPORT

There must be one copy of the audit report, letters, notes, findings, and schedules submitted electronically. E-mail the reports to the following e-mail address:

Finance.Reports@education.ky.gov with “AUDIT” in the subject line (SUBJECT: AUDIT).

SENDING AUDIT REPORT IN MICROSOFT WORD, AND/OR ADOBE ACROBAT (PDF):

- Complete the audit report, letters, notes, and findings.
- Send the report with the file name AUD<3-digit district code number>. 10 (or appropriate year) to the referenced e-mail address. The 3-digit district code numbers are attached.
- If the documents are sent in PDF format they must be saved directly in PDF form, not scanned in.

SENDING AUDIT REPORT IN MICROSOFT EXCEL, AND/OR ADOBE ACROBAT (PDF):

- Complete the audit report schedules.
- Send the report with the file name SCH<3-digit district code number>. 10 (or appropriate year). The 3-digit district code numbers are attached.
- If the documents are sent in PDF format they must be saved directly in PDF form, not scanned. KDE will require resubmission of documents that are not submitted in the proper format.

IF YOU DO NOT HAVE ACCESS TO ADOBE ACROBAT OR MICROSOFT WORD OR MICROSOFT EXCEL:

- Call the Division of District Operations and Transportation and alternate arrangements will be made; or
- Send the audit report and schedules on diskette to the Division of District Operations and Transportation.

| Code | DISTRICT | Code | DISTRICT | Code | DISTRICT | Code | DISTRICT |
|-------------|---------------------|-------------|------------------|-------------|--------------------|-------------|-------------------|
| 1 | Adair Co. | 162 | Fairview Ind. | 392 | Mayfield Ind. | 575 | Washington Co. |
| 5 | Allen Co. | 165 | Fayette Co. | 395 | McCracken Co. | 581 | Wayne Co. |
| 6 | Anchorage Ind. | 171 | Fleming Co. | 401 | McCreary Co. | 585 | Webster Co. |
| 11 | Anderson Co. | 175 | Floyd Co. | 405 | McLean Co. | 586 | West Point Ind. |
| 12 | Ashland Ind. | 176 | Fort Thomas Ind. | 411 | Meade Co. | 591 | Whitley Co. |
| 13 | Augusta Ind. | 177 | Frankfort Ind. | 415 | Menifee Co. | 592 | Williamsburg Ind. |
| 15 | Ballard Co. | 181 | Franklin Co. | 421 | Mercer Co. | 593 | Williamstown Ind. |
| 16 | Barbourville Ind. | 185 | Fulton Co. | 425 | Metcalfe Co. | 595 | Wolfe Co. |
| 17 | Bardstown Ind. | 186 | Fulton Ind. | 426 | Middlesboro Ind. | 601 | Woodford Co. |
| 21 | Barren Co. | 191 | Gallatin Co. | 431 | Monroe Co. | | |
| 25 | Bath Co. | 195 | Garrard Co. | 435 | Montgomery Co. | | |
| 26 | Beechwood Ind. | 197 | Glasgow Ind. | 436 | Monticello Ind. | | |
| 31 | Bell Co. | 201 | Grant Co. | 441 | Morgan Co. | | |
| 32 | Bellevue Ind. | 205 | Graves Co. | 445 | Muhlenburg Co. | | |
| 34 | Berea Ind. | 211 | Grayson Co. | 446 | Murray Ind. | | |
| 35 | Boone Co. | 215 | Green Co. | 451 | Nelson Co. | | |
| 41 | Bourbon Co. | 221 | Greenup Co. | 452 | Newport Ind. | | |
| 42 | Bowling Green Ind. | 225 | Hancock Co. | 455 | Nicholas Co. | | |
| 45 | Boyd Co. | 231 | Hardin Co. | 461 | Ohio Co. | | |
| 51 | Boyle Co. | 235 | Harlan Co. | 465 | Oldham Co. | | |
| 55 | Bracken Co. | 236 | Harlan Ind. | 471 | Owen Co. | | |
| 61 | Breathitt Co. | 241 | Harrison Co. | 472 | Owensboro Ind. | | |
| 65 | Breckinridge Co. | 245 | Hart Co. | 475 | Owsley Co. | | |
| 71 | Bullitt Co. | 246 | Hazard Ind. | 476 | Paducah Ind. | | |
| 72 | Burgin Ind. | 251 | Henderson Co. | 477 | Paintsville Ind. | | |
| 75 | Butler Co. | 255 | Henry Co. | 478 | Paris Ind. | | |
| 81 | Caldwell Co. | 261 | Hickman Co. | 481 | Pendleton Co. | | |
| 85 | Calloway Co. | 265 | Hopkins Co. | 485 | Perry Co. | | |
| 91 | Campbell Co. | 271 | Jackson Co. | 491 | Pike Co. | | |
| 92 | Campbellsville Ind. | 272 | Jackson Ind. | 492 | Pikeville Ind. | | |
| 95 | Carlisle Co. | 275 | Jefferson Co. | 493 | Pineville Ind. | | |
| 101 | Carroll Co. | 276 | Jenkins Ind. | 495 | Powell Co. | | |
| 105 | Carter Co. | 281 | Jessamine Co. | 501 | Pulaski Co. | | |
| 111 | Casey Co. | 285 | Johnson Co. | 502 | Raceland Ind. | | |
| 113 | Caverna Ind. | 291 | Kenton Co. | 505 | Robertson Co. | | |
| 115 | Christian Co. | 295 | Knott Co. | 511 | Rockcastle Co. | | |
| 121 | Clark Co. | 301 | Knox Co. | 515 | Rowan Co. | | |
| 125 | Clay Co. | 305 | Larue Co. | 521 | Russell Co. | | |
| 131 | Clinton Co. | 311 | Laurel Co. | 522 | Russell Ind. | | |
| 132 | Cloverport Ind. | 315 | Lawrence Co. | 523 | Russellville Ind. | | |
| 133 | Corbin Ind. | 321 | Lee Co. | 524 | Science Hill Ind. | | |
| 134 | Covington Ind. | 325 | Leslie Co. | 525 | Scott Co. | | |
| 135 | Crittenden Co. | 331 | Letcher Co. | 531 | Shelby Co. | | |
| 141 | Cumberland Co. | 335 | Lewis Co. | 533 | Silver Grove Ind. | | |
| 143 | Danville Ind. | 341 | Lincoln Co. | 535 | Simpson Co. | | |
| 145 | Daviess Co. | 345 | Livingston Co. | 536 | Somerset Ind. | | |
| 146 | Dawson Springs Ind. | 351 | Logan Co. | 537 | Southgate Ind. | | |
| 147 | Dayton Ind. | 354 | Ludlow Ind. | 541 | Spencer Co. | | |
| 149 | East Bernstadt Ind. | 361 | Lyon Co. | 545 | Taylor Co. | | |
| 151 | Edmonson Co. | 365 | Madison Co. | 551 | Todd Co. | | |
| 152 | Elizabethtown Ind. | 371 | Magoffin Co. | 555 | Trigg Co. | | |
| 155 | Elliott Co. | 375 | Marion Co. | 561 | Trimble Co. | | |
| 156 | Eminence Ind. | 381 | Marshall Co. | 565 | Union Co. | | |
| 157 | Erlanger Ind. | 385 | Martin Co. | 567 | Walton-Verona Ind. | | |
| 161 | Estill Co. | 391 | Mason Co. | 571 | Warren County | | |

